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C O N F I D E N T I A L SECTION 01 OF 03 HARARE 001728

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E.O. 12958: DECL: 07/25/2012

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SUBJECT: RADICAL ECONOMIC VISION ADVOCATED BY ZIMBABWE
RESERVE BANK

REF: HARARE 01664

Classified By: Labor officer Karen Bel.
Reasons: 1.5 (B) and (D).

1. (C) Summary. Post has received a confidential document authored from within the Reserve Bank of Zimbabwe (RBZ) outlining an "economic policy" which ensures the further deterioration of the Zimbabwean economy. Among the highlights of the measures urged in this policy are: reduced interest rates, fixed maximum lending rates, compulsory participation of banks in an agricultural-based export scheme, government control of wage adjustments, increased and extensive price controls, suspension of bureaux de change, outlawing the holding of foreign currency by Zimbabwean residents, and implementation of full foreign exchange controls. These recommendations suggest an inevitable march toward command economic control at which recent GOZ pronouncements have, to this point, merely hinted. End summary.

2. (C) Laboff met with a reliable embassy contact with excellent economic credentials on July 24 to discuss the GOZ's response to internal calls for economic reforms. Both Finance Minister Simba Makoni and RBZ governor Leonard Tumba have recently made statements critical of the status quo and appealed for the GOZ to adopt meaningful reforms in the face of the disintegration of the Zimbabwean economic sector (see reftel). Mugabe's response was to reject the call for reforms and to instruct the RBZ to look for "other alternatives" to such apparently sound measures as devaluing the Zimbabwean dollar and increasing the availability of forex. The contact shared with us a copy of an RBZ-prepared document entitled "Economic Policy Measures, Reserve Bank of Zimbabwe, July 3, 2002," which advocates a frighteningly regressive response to the crisis, and one which seems to have found favor with Mugabe. It is not clear whether all of the document's recommendations will be officially adopted, but some of them are echoed in Mugabe's public statements -- particularly in his address at the opening of Parliament on July 23, in which he pronounced, "Devaluation is dead," "The parallel market must be controlled," and that those with dissenting economic views are "saboteurs and enemies of the state."

Begin text of the Economic Policy Measures document:

"ECONOMIC POLICY MEASURES
RESERVE BANK OF ZIMBABWE
JULY 3, 2002

1. Interest Rate Policy
-- Reduce Bank Rate from 57% to 27.5%
-- Manage the TB rate within 0.1% - 1% below the Bank Rate.
-- Fix maximum lending rates for other productive activities funded from own resources of commercial banks, merchant banks and finance houses at 5% percentage points above the Bank Rate. Banks will, however, determine lending rates for non-productive borrowing.
-- Fix maximum mortgage rates on commercial and industrial properties at 5% percentage points above the Bank Rate.
-- Fix maximum mortgage rates on residential properties at 5% percentage points below the Bank Rate.
-- Lower the interest rate on the export finance facility from 15% to 5%.
-- Lower the interest rate on the productive sector finance facility from 30% to 15%.
-- Intensify monitoring of the usage of the funds from the export and productive sector finance facilities.
-- Mop up excess liquidity.

2. Export Recovery Trust (ERT)
To boost agricultural exports, an Export Recovery Trust should be established to spearhead production and marketing of agricultural exports. The Trust will fund and oversee

production activity in the agricultural sector taking advantage of the existing institutional arrangements.

13. Wages and Salaries

Government should intervene in wage adjustment to ensure that wages are adjusted in accordance with rules and regulations set by the Ministry of Labour and Social Welfare. However, this may not be received well by workers, hence, the need to build capacity to deal with possible negative reaction.

14. Prices

In order for the above to work, they have to be complemented by extensive price controls across all sectors. Current price controls should be widened and broadened to include other commodities. Prices will be set in accordance with parameters set by the Minister of Industry and International Trade.

15. Viability

Ministry of Finance and Economic Development should come up with fiscal incentives to enhance the viability of companies (sic)

16. Suspend Bureaux De Change

Violation of Exchange Control rules and regulations has increased to alarming levels. Some Bureaux, as evidenced by a thriving parallel market handle more foreign currency than what is handled by large banks in this country. In this regard, a lot foreign exchange (sic) is leaving the official foreign exchange market through this conduit. Bureaux de Change should, therefore, be suspended indefinitely.

17. Outlaw Holding of Foreign Currency by Residents

Resident and non-resident Zimbabweans who are also a source of supply of foreign exchange have also fueled parallel market activity. This is particularly so, given that residents are allowed to hold cash in foreign currency. To stem the growth of the parallel market, there is need to outlaw holding of foreign currency cash by residents, and also require returning residents to immediately sell their foreign exchange to Authorised Dealers. In addition, foreign currency cash payouts by Money Transfer Agencies to resident recipients should be outlawed.

18. Implementation of Full Exchange Controls

An effective approach requires the complete implementation of exchange controls, where all the foreign exchange is pooled with the Reserve Bank, and allocations made by a Foreign Exchange Management Board (FEMB). Exporters will, however, continue to have entitlements to their 60% foreign exchange retention for the same period of 60 days. Non-exporters will be funded through the rest of the market pool.

Pre-conditions for effective implementation include:

- Withdrawal of delegated Exchange Control authority from Authorized Dealers.
- Application of specific limits to usage of foreign exchange and restrict importation of non-essentials.
- Import payments will be subject to availability of foreign exchange and payments for invisibles will be subject to Reserve Bank approval.
- Enlisting the services of Pre and Post-Shipments Inspection Agencies.
- Establishment of an elaborate exchange control infrastructure.
- Imposition of stiffer monetary penalties for non-compliance.

RESERVE BANK OF ZIMBABWE
3 JULY 2002"

End text of the Economic Policy Measures document

13. (C) The contact who provided this document believed that it had been purposefully "leaked" by moderates within the GOZ in order to muster outrage over and resistance to this neo-Leninist action plan. In addition to the strengthening of policies that have already proved destructive to the Zimbabwean economy, this plan also envisions establishing a new beauracracy tasked with deeming whether supplicants are "worthy" of forex -- which will, of course, become even more limited under such a scheme.

14. (C) As noted by the contact, the scheme -- if implemented -- will ensure that the banks will actually lose money when the mandated lower interest rates are combined with the (ever rising) hyper-inflation. In essence, the GOZ's plan will cause the banks to squander the resources of their customers -- pensioners, savers, small-time depositors, and anybody unfortunate enough not to have access to offshore accounts -- by making unsound investments at the behest of the government. As the contact lamented, "whether such action is illegal according to domestic laws, it is certainly immoral -- and should be illegal according to the laws of civilized nations."

15. (C) Comment: In addition to the previously mentioned objections, if this program is implemented it will further estrange the GOZ from the rest of society for a host of reasons. By implementing wage controls the GOZ -- a signatory to the ILO conventions -- will be violating the rights of workers and employers to bargain collectively for wages and benefits. Increased price controls guarantee increased shortages, as importers (even importers of "essential" as opposed to the newly-outlawed "non-essential" goods) will shut down their operations rather than sell their goods for less than they cost. These new measures will prevent any Zimbabwean who does not have good "connections" from traveling even to neighboring countries, where the Zimbabwean currency is useless. And further, these measures will criminalize Zimbabweans for merely holding forex in order to maintain a lifeline to the outside world. If implemented, these measures will ensure that ordinary Zimbabweans remain within their borders, impoverished and without options, unable to improve their rapidly deteriorating conditions. End comment.

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